

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

| | | | |
|--|-----------------------------------|--|---------------|
| Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other | | Local Unit Name Bay Metropolitan Transportation Authority | County Bay |
| Fiscal Year End September 30, 2006 | Opinion Date November 15, 2006 | Date Audit Report Submitted to State January 19, 2007 | |

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

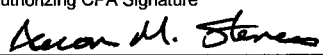
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

| | | | |
|--|---------------------------------------|--|-------------|
| We have enclosed the following: | Enclosed | Not Required (enter a brief justification) | |
| Financial Statements | <input checked="" type="checkbox"/> | | |
| The letter of Comments and Recommendations | <input checked="" type="checkbox"/> | N/A | |
| Other (Describe) | <input checked="" type="checkbox"/> | Single Audit | |
| Certified Public Accountant (Firm Name) Abraham & Gaffney, P.C. | | Telephone Number 517-351-6836 | |
| Street Address 3511 Coolidge Road, Suite 100 | | City East Lansing | State MI |
| Zip 48823 | | | |
| Authorizing CPA Signature  | Printed Name Aaron M. Stevens, CPA | License Number 1101024055 | |

**Bay Metropolitan
Transportation Authority
Bay City, Michigan**

FINANCIAL STATEMENTS

September 30, 2006

BAY METROPOLITAN TRANSPORTATION AUTHORITY

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Principals

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Michael T. Gaffney, CPA
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Bay Metropolitan Transportation Authority
Bay City, Michigan

We have audited the accompanying financial statements of the Bay Metropolitan Transportation Authority as of and for the year ended September 30, 2006, as listed in the Table of Contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bay Metropolitan Transportation Authority as of September 30, 2006, and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2006, on our consideration of the Bay Metropolitan Transportation Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, as identified in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise Bay Metropolitan Transportation Authority's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, and Schedule of Expenditures of Federal Awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Bay Metropolitan Transportation Authority. Such information, except for the portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

November 15, 2006

BAY METROPOLITAN TRANSPORTATION AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2006

As management of the Bay Metropolitan Transportation Authority ["the Authority"] we offer to readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Bay Metropolitan Transportation Authority for the fiscal year ended September 30, 2006.

Financial Highlights

- The net assets of the Authority exceeded its liabilities at the close of the most recent fiscal year by \$5,543,114. *[page 2]*
- The Authority's total net assets decreased by \$439,521 as the result of current year activities. Of this figure, \$882,801 of the decrease was attributable to the depreciation of capital assets. *[pages 1 and 9]*
- State formula operating assistance remained steady [a slight percentage increase over 2005] during 2006 following a 4% decrease during the prior year.
- Total net eligible operating expenses decreased by \$20,497 [0.3%] over the previous year due largely to service reductions and other cost-saving measures instituted during 2005. This was in spite of higher fuel costs during the current year. *[page 18]*
- Total expenses [including depreciation of capital assets] decreased by \$331,242 [4.1%] and resulted in a loss of \$7,027,073 before capital contributions, state and federal grants, and local millage receipts are considered. *[page 2]*
- Total vehicle [service] hours declined by 4.0% during 2006 to 90,949 hours. Total public transportation mileage declined by 7.8% during 2006 to 1,509,326 miles. These reductions played a significant role in reducing overall operating costs from the prior year. *[page 20]*
- Unrestricted net assets were increased by \$74,073 during the fiscal year. *[page 1]*

Overview of the Financial Statements

This Management Discussion and Analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements comprise four components: statement of net assets; statement of revenues, expenses and changes in net assets; statement of cash flows; and notes to the financial statements.

The statement of net assets presents information on all of the Authority's assets and liabilities with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. The statement of net assets is shown on page 1 of this report.

The statement of revenues, expenses and changes in net assets presents information on revenues, expenses, capital contributions, and how the Authority's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the changes occurs, regardless of the timing of related cash flows. Thus revenues, expenses and capital contributions are reported in the statements of some items that will result in cash flows only in future fiscal periods. The increase or decrease in net assets may serve as an indicator of the effect of the Authority's current year operations on its financial position. The statement of revenues, expenses and changes in net assets is shown on page 2 of this report.

The statement of cash flows summarizes all of the Authority's cash flows into four categories: cash flows from operating activities; cash flows from non-capital financing activities; cash flows from capital and related financing activities; and cash flows from investing activities. The statement of cash flows is shown on page 3 of this report.

The statement of cash flows, along with related notes and information in other financial statements, can be used to assess the following: the Authority's ability to generate positive future cash flows and pay its debts if and when they occur and/or mature; the reasons for the differences between the Authority's operating cash flows and operating income [loss]; the effect of cash and non-cash investing, capital, and financing activities on the Authority's financial position.

BAY METROPOLITAN TRANSPORTATION AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2006

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the statement of net assets, statement of revenues, expenses and changes in net assets, and statement of cash flows. The notes to the financial statements are shown on pages 4 to 13 of this report.

The financial statements provide information on all functions of the Authority as business-type activities. The activities of the Authority are supported by a property tax levy, fare collections from passengers, and federal and state financial assistance.

Financial Analysis

Statement of Net Assets - Total assets of the Authority exceeded total liabilities by \$5,543,114 as of September 30, 2006. The largest portion of this excess [69.5%; or \$3,852,347 of total net assets of \$5,543,114] was invested in capital assets less any related debt that might be outstanding. The Authority used these capital assets to provide public transit services to customers and member jurisdictions; consequently, these assets are not available for future spending. Even though the Authority has no current debt, it should be noted that the Authority's investment in capital assets resources could not be used to liquidate any future liabilities. Such debt, should it occur, would need to be repaid using other sources of revenue such as property tax.

CONDENSED STATEMENT OF NET ASSETS [page 1]

| | <u>As of 9/30/05</u> | <u>Change</u> | <u>As of 9/30/06</u> |
|------------------------------|----------------------|--------------------|----------------------|
| Current Assets | \$ 2,653,852 | \$ +184,450 | \$ 2,838,302 |
| Capital Assets [net] | <u>4,262,237</u> | <u>-409,890</u> | <u>3,852,347</u> |
| Total Assets | 6,916,089 | -225,440 | 6,690,649 |
| Current Liabilities | 1,037,158 | +110,377 | 1,147,535 |
| Noncurrent Liabilities | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Liabilities | 1,037,158 | +110,337 | 1,147,535 |
| Net Assets | | | |
| --Invested in Capital Assets | 4,262,237 | -409,890 | 3,852,347 |
| --Unrestricted | <u>1,616,694</u> | <u>+74,073</u> | <u>1,690,767</u> |
| Total Net Assets | <u>\$ 5,878,931</u> | <u>\$ -335,817</u> | <u>\$ 5,543,114</u> |

Unrestricted net assets of \$1,690,767 are available to meet the Authority's ongoing obligations.

Statement of Revenues, Expenses and Changes in Net Assets - During fiscal year 2006, the Authority's activities resulted in a decrease in net assets of \$439,521. The decrease is attributable to a depreciation expense of \$882,801. The key elements of the changes in net assets are shown in the following table which summarizes changes in net assets for the fiscal year.

BAY METROPOLITAN TRANSPORTATION AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2006

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS *[pages 2 and 9]*

| | <u>As of 9/30/05</u> | <u>Change</u> | <u>As of 9/30/06</u> |
|--------------------------|----------------------|----------------|----------------------|
| Operating Revenues | \$ 692,957 | \$ 19,462 | \$ 712,419 |
| Nonoperating Revenues | <u>6,130,757</u> | <u>456,795</u> | <u>6,587,552</u> |
| Total Revenues | 6,823,714 | 476,255 | 7,299,971 |
| Depreciation Expense | 1,172,868 | -290,067 | 882,801 |
| Other Operating Expenses | <u>6,897,866</u> | <u>-41,175</u> | <u>6,856,691</u> |
| Total Expenses | 8,070,734 | -331,242 | 7,739,492 |
| Change in Net Assets | -1,247,020 | | -439,521 |
| Beginning Net Assets | <u>7,125,951</u> | | <u>5,982,635</u> |
| Ending Net Assets | <u>\$ 5,878,933</u> | | <u>\$ 5,543,114</u> |

The increase in operating revenues of \$19,462 [2.8%] was small. Property tax revenues increased by \$82,103 [4.2%]. The annual rate of increase has generally been in the range of 3.5% since the millage was first approved in 1981. Investment income increased by \$29,369 [94.0%] due to improved interest rates. State of Michigan Act 51 operating assistance increased by \$56,337 [2.2%] due to slight increase in reimbursement percentage. Federal FTA urban capital/operating assistance increased by \$146,799. In recent years, a sizable portion of federal urban formula funds have been used for operating purposes. The largest factors contributing to the increase in 2006 were the re-classification of the Authority as a "small urban transit intensive community" which resulted in additional funds under the FTA Section 5307 formula, and an increase in the reimbursement percentage for non-urban transit services to 17.0% of eligible expenses.

The following table shows revenues and expenses by source for the fiscal year ended September 30, 2006.

| | <u>As of 9/30/05</u> | <u>Change</u> | <u>As of 9/30/06</u> |
|---------------------------------|----------------------|--------------------|----------------------|
| Operating Revenues | \$ 692,957 | \$ 19,462 | \$ 712,419 |
| Nonoperating Revenues | | | |
| --Property Taxes | 1,970,759 | 82,103 | 2,052,862 |
| --State Funds | 2,836,418 | -86,193 | 2,750,225 |
| --Federal Funds | 1,292,322 | 431,516 | 1,723,838 |
| Interest Earnings | <u>31,258</u> | <u>29,369</u> | <u>60,627</u> |
| Total Revenues | 6,823,714 | 476,257 | 7,299,971 |
| Operations Expenses | 5,457,679 | -348,667 | 5,109,012 |
| Maintenance Expenses | 1,400,825 | 22,384 | 1,423,209 |
| General Administrative Expenses | <u>1,212,230</u> | <u>-4,959</u> | <u>1,207,271</u> |
| Total Expenses | <u>\$ 8,070,734</u> | <u>\$ -331,242</u> | <u>\$ 7,739,492</u> |

BAY METROPOLITAN TRANSPORTATION AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2006

Capital Assets and Debt Administration

Capital Assets - The Authority's investment in capital assets as of September 30, 2006, was \$3,852,347 compared to \$4,262,237 in 2005. Investment in capital assets includes: land; buildings and improvements; revenue and non-revenue vehicles; equipment; furniture, fixtures and leasehold improvements. The net decrease in investment in capital assets during the current year was \$409,890 [9.6%]. The most significant event that affected the Authority's capital assets during fiscal year 2006 was the annual depreciation of revenue vehicles.

The following table summarizes capital assets net of depreciation as of September 30, 2006.

| | <u>As of 9/30/05</u> | <u>Change</u> | <u>As of 9/30/06</u> |
|----------------------------|----------------------|--------------------|----------------------|
| Land [not depreciated] | \$ 65,894 | \$ - | \$ 165,894 |
| Construction in Progress | 12,990 | -12,990 | - |
| Buildings and Improvements | 1,777,054 | -112,415 | 1,664,639 |
| Revenue/Service Vehicles | 2,104,982 | -259,448 | 1,845,534 |
| Furniture and Fixtures | 3,391 | -1,282 | 2,109 |
| Maintenance Equipment | 133,121 | 12,678 | 145,799 |
| Shelters and Signs | 5,682 | -1,284 | 4,398 |
| Radio Equipment/Fareboxes | 23,188 | -18,212 | 4,976 |
| Data Processing Equipment | <u>35,935</u> | <u>-16,937</u> | <u>18,998</u> |
| Net Capital Assets | <u>\$ 4,262,237</u> | <u>\$ -409,890</u> | <u>\$ 3,852,347</u> |

Additional information on the Authority's capital assets is shown on pages 8 and 9.

Outstanding Debt - At the end of the 2006 fiscal year, the Authority had no outstanding debt. This was unchanged from the 2005 fiscal year.

Other Significant Items

Property tax is the largest local source of revenue for the Authority and accounted for 28.1% of total revenues in 2006. In 2005, the figure was 28.8%. The Authority's property tax revenues have grown steadily at the annual rate of approximately 3.5% since the levy was first approved by the voters of Bay County in 1981. The property tax was renewed by the voters for an additional five [5] years in November 2004. The 0.75 mill tax levy will remain in effect through 2010.

The difficult economic conditions affecting the State of Michigan will continue to affect the operations of the Authority. In 2006, the state formula reimbursement rate increased slightly from 38.437% to 39.250%. The 39% reimbursement rate is 15% lower than the average formula reimbursement rate of the late 1990's. In 2007, the rate is projected to decrease slightly. The federal non-urban operating assistance percentage increased in 2006 which helped to offset losses in state assistance due to a decline in eligible operating expenses. The federal urban assistance level for 2007 is unknown at this time. If federal operating/capital funds [FTA Section 5307] remain the same or increase a bit under the "small urban transit intensive communities" provision, it should have a positive impact on the Authority's finances.

In order to address the loss of state formula operating assistance during fiscal year 2005 the Authority took steps to bring anticipated losses in the coming fiscal year which began on October 1, 2005, under control. These efforts were successful in turning a net loss in fiscal year 2005 into a slight net gain in fiscal year 2006. In addition to many small efforts undertaken to reduce operating expenses system-wide, two large efforts undertaken in 2005 that had positive impacts in 2006 were specific reductions in transit services that were undertaken without seriously impacting the system's passengers and approval of a retirement incentive package to encourage employees already eligible to retire to do so.

BAY METROPOLITAN TRANSPORTATION AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2006

Since the changes described above were implemented late in the fiscal year it was understood that the full effect of the changes would not be felt until the next fiscal year; that is, the year beginning October 1, 2005. The focus was placed on doing what was needed during 2005 to make sure the financial problem did not continue into 2006.

The Authority will continue to monitor this situation well into the future, since the financial status of the State of Michigan may not improve very soon. Additional service reductions do not seem likely at this time.

Requests for Information

This financial report is designed to provide our member jurisdictions, customers, investors and creditors with a general overview of the Authority's finances. Questions concerning any of the information provided in this report, as well as additional financial information, may be obtained by contacting the Chief Financial Officer at the following address:

Finance Manager
Bay Metro Transit
1510 N. Johnson Street
Bay City, MI 48708
Phone: 989-894-2900, ext 206

BASIC FINANCIAL STATEMENTS

BAY METROPOLITAN TRANSPORTATION AUTHORITY

STATEMENT OF NET ASSETS

September 30, 2006

ASSETS

Current assets

| | |
|----------------------------|--------------|
| Cash and cash equivalents | \$ 1,770,119 |
| Investments | 100,825 |
| Cash on deposit with agent | 150,000 |
| Accounts receivable | 61,256 |
| Grants receivable | 409,621 |
| Inventories | 297,334 |
| Prepays | 49,147 |

Total current assets 2,838,302

Noncurrent assets

| | |
|---|-----------|
| Capital assets not being depreciated | 165,894 |
| Capital assets, net of accumulated depreciation | 3,686,453 |

Total noncurrent assets 3,852,347

TOTAL ASSETS 6,690,649

LIABILITIES

Current liabilities

| | |
|-----------------------------------|---------|
| Accounts payable | 290,450 |
| Accrued wages | 180,522 |
| Other accrued liabilities | 69,223 |
| Workers' compensation liability | 221,648 |
| Deferred revenue | 960 |
| Due to Arenac Opportunities, Inc. | 35,319 |
| Compensated absences | 349,413 |

TOTAL LIABILITIES 1,147,535

NET ASSETS

| | |
|----------------------------|-----------|
| Invested in capital assets | 3,852,347 |
| Unrestricted | 1,690,767 |

TOTAL NET ASSETS \$ 5,543,114

See accompanying notes to financial statements.

BAY METROPOLITAN TRANSPORTATION AUTHORITY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES FUND IN NET ASSETS

Year Ended September 30, 2006

OPERATING REVENUES

| | |
|--------------------------------|------------|
| Sales and charges for services | \$ 712,419 |
|--------------------------------|------------|

OPERATING EXPENSES

| | |
|------------------------|-----------|
| Operations | 5,109,012 |
| Maintenance | 1,423,209 |
| General administrative | 1,207,271 |

| | |
|--------------------------|------------------|
| TOTAL OPERATING EXPENSES | <u>7,739,492</u> |
|--------------------------|------------------|

| | |
|------------------|-------------|
| OPERATING (LOSS) | (7,027,073) |
|------------------|-------------|

NONOPERATING REVENUES

| | |
|-------------------|---------------|
| Taxes | 2,052,862 |
| Intergovernmental | |
| Federal sources | 1,723,838 |
| State sources | 2,750,225 |
| Interest earnings | <u>60,627</u> |

| | |
|-----------------------------|------------------|
| TOTAL NONOPERATING REVENUES | <u>6,587,552</u> |
|-----------------------------|------------------|

| | |
|--------------------------|-----------|
| (DECREASE) IN NET ASSETS | (439,521) |
|--------------------------|-----------|

| | |
|--|------------------|
| Restated net assets, beginning of year | <u>5,982,635</u> |
|--|------------------|

| | |
|-------------------------|----------------------------|
| Net assets, end of year | <u><u>\$ 5,543,114</u></u> |
|-------------------------|----------------------------|

See accompanying notes to financial statements.

BAY METROPOLITAN TRANSPORTATION AUTHORITY

STATEMENT OF CASH FLOWS

Year Ended September 30, 2006

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|------------------------------------|--------------------|
| Cash receipts from customers | \$ 723,536 |
| Cash paid to employees and vendors | (4,362,153) |
| Cash paid for employee benefits | <u>(2,402,791)</u> |

NET CASH (USED) BY OPERATING ACTIVITIES (6,041,408)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

| | |
|------------------------------------|------------------|
| Taxes | 2,052,862 |
| Subrecipient grants received | 332,834 |
| Amounts paid to subrecipients | (327,352) |
| Intergovernmental operating grants | <u>4,176,749</u> |

NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES 6,235,093

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

| | |
|-------------------|----------------|
| Capital purchases | (472,911) |
| Capital grants | <u>435,178</u> |

NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES (37,733)

CASH FLOWS FROM INVESTING ACTIVITIES

| | |
|-------------------------|---------------|
| Purchase of investments | (100,825) |
| Interest revenue | <u>60,627</u> |

NET CASH (USED) BY INVESTING ACTIVITIES (40,198)

NET INCREASE IN CASH AND CASH EQUIVALENTS DURING YEAR 115,754

Cash and cash equivalents, beginning of year 1,654,365

Cash and cash equivalents, end of year \$ 1,770,119

Reconciliation of operating (loss) to net

| | |
|-------------------------------------|----------------|
| cash (used) by operating activities | |
| Operating (loss) | \$ (7,027,073) |

Adjustments to reconcile operating (loss) to
net cash (used) by operating activities

| | |
|---|----------------|
| Depreciation | 882,801 |
| Decrease in accounts receivable | 11,117 |
| (Increase) in inventories | (2,607) |
| (Increase) in prepaids | (10,541) |
| Increase in accounts payable | 51,479 |
| (Decrease) in accrued wages | (27,594) |
| Increase in other accrued liabilities | 9,638 |
| Increase in workers' compensation liability | 78,639 |
| (Decrease) in compensated absences | <u>(7,267)</u> |

NET CASH (USED) BY OPERATING ACTIVITIES \$ (6,041,408)

See accompanying notes to financial statements.

BAY METROPOLITAN TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Bay Metropolitan Transportation Authority was established under the applicable laws of the State of Michigan Public Act 196, as amended, to operate a transportation system within the County of Bay on November 3, 1986. Public Act 196 known as the "Public Transportation Authority Act" authorizes the formation of public transportation authorities with certain powers and duties as separate and distinct political subdivisions within the State of Michigan.

The Bay Metropolitan Transportation Authority receives Federal and State financial assistance in the form of operating and capital grant funding to support its operation, expand marketing and specialized services, and replace buses and other equipment. The Bay Metropolitan Transportation Authority provides linehaul and demand response services within Bay County. The Bay Metropolitan Transportation Authority provides services on a contractual basis to several nonprofit and governmental agencies within the County as well as other services not provided through private providers.

The accounting policies of the Bay Metropolitan Transportation Authority conform to accounting principles generally accepted in the United States of America as applicable to governmental units. In accordance with GASB Statement 20, the Authority has elected not to apply the FASB Statements and interpretations issued after November 30, 1989, to its financial statements. The following is a summary of the significant policies:

1. Reporting Entity

The accompanying financial statements are exclusive presentations of the financial condition and results of operations of the Bay Metropolitan Transportation Authority. The Authority has followed the guidelines of the Governmental Accounting Standards Board's Statement No. 14, as amended by GASB Statement No. 39, and has determined that no entities should be consolidated into its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements.

2. Basis of Presentation

The accounts of the Bay Metropolitan Transportation Authority are organized on the basis of a fund which is considered a separate accounting entity. The operation of the fund is accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenses. Bay Metropolitan Transportation Authority resources are allocated to and accounted for in the individual fund based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The fund in the financial statements in this report is described as follows:

PROPRIETARY FUND

Enterprise Fund - This fund is used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

3. Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The proprietary fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the Statement of Net Assets. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

BAY METROPOLITAN TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

4. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Proprietary funds are accounted for using the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred, regardless of the timing of related cash flows.

5. Cash, Cash Equivalents, and Investments

The Bay Metropolitan Transportation Authority cash accounts consist of various checking and savings accounts. The balances in the cash accounts are available to meet current operating requirements. Cash in excess of current requirements is invested in various interest bearing accounts.

Investment accounts include certificates of deposit with an original maturity of greater than 90 days from the date of purchase.

6. Cash on Deposit with Agent

The Authority has cash on deposit with the Michigan Transit Insurance Pool of which it is a member. The cash is being held in a premium stabilization fund on behalf of the Authority and is available, without restriction, to the Authority.

7. Inventories

Inventories consist of fuel and maintenance and repair parts and are valued on the average cost basis.

8. Capital Assets

Capital assets, which include land, buildings, vehicles, and equipment, are capitalized at total acquisition cost, provided such cost exceeds \$5,000 and the expected useful life of the asset is more than one year. Depreciation is recorded on all depreciable capital assets on a straight-line basis over the estimated useful lives of the assets.

The estimated useful lives are:

| | |
|---------------------------|--------------|
| Buildings | 5 - 30 years |
| Revenue equipment | 2 - 12 years |
| Fare boxes | 10 years |
| Service vehicles | 2 - 12 years |
| Radio equipment | 10 years |
| Furniture and fixtures | 6 - 10 years |
| Maintenance equipment | 5 - 10 years |
| Shelter and signs | 3 - 4 years |
| Data processing equipment | 4 - 10 years |

9. Compensated Absences

Bay Metropolitan Transportation Authority employees are granted paid leave time in varying amounts. In the event of termination, an employee is paid for certain portions of unused paid leave time. This amount has been recorded in the Statement of Net Assets.

BAY METROPOLITAN TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

10. Cost Allocations

The Bay Metropolitan Transportation Authority allocates expenses between various program activities for grant reporting purposes. The allocations are prepared based on a cost allocation plan and methodology that has been approved by the grantor agency (i.e., service hours, service miles, peak vehicle).

11. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since the inclusion of comparative data would make the statements unduly complex and difficult to read.

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS

The Bay Metropolitan Transportation Authority is authorized to invest any of its funds in one (1) or more of the following:

1. Bonds, securities, and other obligations of the United States or any agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which it maintains a principal office or branch office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, savings bank, or credit union is eligible to be a depository of surplus funds belong to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental agency's are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits, if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

BAY METROPOLITAN TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

Cash, cash equivalents, and investments reported on the Statement of Net Assets consists of the following:

| | |
|-------------------------------|---------------------|
| Imprest cash | \$ 400 |
| Checking and savings accounts | 1,466,065 |
| Certificates of deposit | <u>404,479</u> |
| Total | <u>\$ 1,870,944</u> |

Deposits

Deposits are maintained at four (4) financial institutions and are carried at cost, as follows:

| | <u>Carrying Amount</u> | <u>Bank Balance</u> |
|----------------|----------------------------|-------------------------|
| Imprest cash | \$ 400 | \$ - |
| Insured (FDIC) | 600,000 | 600,000 |
| Uninsured | <u>1,270,544</u> | <u>1,280,192</u> |
| Total deposits | <u>\$ 1,870,944</u> | <u>\$ 1,880,192</u> |

Interest rate risk

The Authority will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow characteristics of the portfolio.

Concentration of credit risk

The Authority will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Authority's investment in a single issuer, by security type and institution. With the exception of U.S. Treasury securities and authorized investment pools, no more than 60 percent of the total investment portfolio shall be invested in a single security type or with a single financial institution.

The cash, cash equivalents, and investments referred to above have been reported in either the cash and cash equivalents or investments caption on the Statement of Net Assets, based upon criteria disclosed in Note A. The following summarizes the categorization of the amounts as of September 30, 2006.

| | |
|---------------------------|---------------------|
| Cash and cash equivalents | \$ 1,770,119 |
| Investments | <u>100,825</u> |
| Total | <u>\$ 1,870,944</u> |

BAY METROPOLITAN TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

NOTE C: GRANTS RECEIVABLE

Grants receivable at September 30, 2006, by grant type and year are as follows:

| | |
|---|-------------------|
| State Operating Assistance - FY03 | \$ 7,293 |
| State Operating Assistance - FY04 | 3,198 |
| State Operating Assistance - FY05 | 86,825 |
| State Operating Assistance - FY06 | 153,703 |
| State Capital Assistance - Section 5309 | 2,402 |
| Federal Capital Assistance - Section 5309 | 9,608 |
| Federal Section 5311 - FY04 | 15,485 |
| Federal Section 5311 - FY05 | 16,265 |
| Federal Section 5311 - FY06 | 49,163 |
| Specialized Services - FY06 | 39,150 |
| Federal Section 5303 - FY05 | 2,169 |
| Federal Section 5303 - FY06 | <u>24,360</u> |
| Total | \$ <u>409,621</u> |

NOTE D: CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2006, was as follows:

| | <u>Balance</u> <u>Oct. 1, 2005</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance</u> <u>Sept. 30, 2006</u> |
|--------------------------------------|---------------------------------------|------------------|--------------------|---|
| Business-type activities: | | | | |
| Capital assets not being depreciated | | | | |
| Land | \$ 165,894 | \$ - | \$ - | \$ 165,894 |
| Construction in process | <u>12,990</u> | <u>-</u> | <u>(12,990)</u> | <u>-0-</u> |
| Subtotal at historical cost | 178,884 | -0- | (12,990) | 165,894 |
| Capital assets being depreciated | | | | |
| Building | 4,966,022 | 135,255 | - | 5,101,277 |
| Revenue equipment | 9,301,470 | 306,096 | (127,343) | 9,480,223 |
| Fareboxes | 13,101 | - | - | 13,101 |
| Service vehicles | 222,804 | - | - | 222,804 |
| Radio equipment | 187,758 | - | - | 187,758 |
| Furniture and fixtures | 11,113 | - | - | 11,113 |
| Maintenance equipment | 277,809 | 34,950 | (28,684) | 284,075 |
| Shelter and signs | 45,617 | - | - | 45,617 |
| Data processing equipment | <u>267,018</u> | <u>9,600</u> | <u>(112,634)</u> | <u>163,984</u> |
| Subtotal at historical cost | 15,292,712 | 485,901 | (268,661) | 15,509,952 |

BAY METROPOLITAN TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

NOTE D: CAPITAL ASSETS - CONTINUED

| | Balance Oct. 1, 2005 | Additions | Deletions | Balance Sept. 30, 2006 |
|---|-------------------------|---------------|--------------|---------------------------|
| Business-type activities - continued: | | | | |
| Less accumulated depreciation for: | | | | |
| Building | \$(3,188,968) | \$(247,670) | \$ - | \$(3,436,638) |
| Revenue equipment | (7,213,841) | (556,868) | 127,343 | (7,643,366) |
| Fareboxes | (13,100) | - | - | (13,100) |
| Service vehicles | (205,451) | (8,676) | - | (214,127) |
| Radio equipment | (164,571) | (18,212) | - | (182,783) |
| Furniture and fixtures | (7,722) | (1,282) | - | (9,004) |
| Maintenance equipment | (144,688) | (22,272) | 28,684 | (138,276) |
| Shelter and signs | (39,935) | (1,284) | - | (41,219) |
| Data processing equipment | (231,083) | (26,537) | 112,634 | (144,986) |
| Subtotal at historical cost | (11,209,359) | (882,801) | 268,661 | (11,823,499) |
| Net capital assets being depreciated | 4,083,353 | (396,900) | -0- | 3,686,453 |
| Capital assets, net | \$ 4,262,237 | \$(396,900) | \$(12,990) | \$ 3,852,347 |

A summary of capital assets by funding source at September 30, 2006, follows:

| | Purchased with Authority Funds | Purchased with Capital Grants | Purchased with Capital Lease Proceeds | Total |
|--------------------------------|---|--|--|---------------|
| Land (not depreciated) | \$ 102,394 | \$ 63,500 | \$ - | \$ 165,894 |
| Buildings | 282,179 | 4,819,098 | - | 5,101,277 |
| Revenue equipment | 82,410 | 8,563,813 | 834,000 | 9,480,223 |
| Fare boxes | - | 13,101 | - | 13,101 |
| Service vehicles | - | 222,804 | - | 222,804 |
| Radio equipment | 77 | 187,681 | - | 187,758 |
| Furniture and fixtures | 11,113 | - | - | 11,113 |
| Maintenance equipment | 24,163 | 259,912 | - | 284,075 |
| Shelter and signs | - | 45,617 | - | 45,617 |
| Data processing equipment | 9,600 | 154,384 | - | 163,984 |
| Total | 511,936 | 14,329,910 | 834,000 | 15,675,846 |
| Less: accumulated depreciation | (308,217) | (10,681,282) | (834,000) | (11,823,499) |
| Net Capital Assets | \$ 203,719 | \$ 3,648,628 | \$ -0- | \$ 3,852,347 |

When Federal or State funded assets are withdrawn from public transportation service, the disposition of the assets is to be determined by the United States Department of Transportation (USDOT) and the Michigan Department of Transportation (MDOT). During the year the Bay Metropolitan Transportation Authority disposed of assets that were Federally and State funded with a historical cost of \$268,661. The total amount disposed of was fully depreciated. Depreciation expense in the amount of \$882,801 was reported for year ended September 30, 2006.

BAY METROPOLITAN TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

NOTE E: RETIREMENT PLAN

Plan Description

The Bay Metropolitan Transportation Authority participates in the Municipal Employees Retirement System of Michigan, an agent multiple-employer defined benefit pension plan that covers all eligible (i.e., full-time) employees of the Bay Metropolitan Transportation Authority. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

Covered employees currently are not required to make contributions to the retirement system. The Bay Metropolitan Transportation Authority is required to contribute the remaining amounts necessary to fund the system.

Annual Pension Cost

For year ended September 30, 2006, the Bay Metropolitan Transportation Authority's annual pension cost of \$424,019 for the plan was equal to the Bay Metropolitan Transportation Authority's required and actual contribution. The estimated annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry age normal actuarial cost method. Actual required contributions are based on actual reported monthly payroll. Significant actuarial assumptions used include (a) an 8.00 percent investment rate of return (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation and (c) additional salary increases ranging from 0% to 8.4% per year depending on age, seniority and merit. The unfunded actuarial liability is being amortized as a level percentage of payroll over a period of thirty-two (32) years.

Three (3) year trend information

| | Year Ended December 31, | | |
|---|-------------------------|--------------|--------------|
| | <u>2003</u> | <u>2004</u> | <u>2005</u> |
| Actuarial value of assets | \$ 2,366,658 | \$ 2,896,763 | \$ 3,445,227 |
| Actuarial accrued liability (AAL) (entry age) | 4,990,123 | 6,144,256 | 6,857,822 |
| Unfunded (overfunded) AAL | 2,623,465 | 3,247,493 | 3,412,595 |
| Funded ratio | 47 % | 47 % | 50 % |
| Covered payroll | 3,219,623 | 3,257,231 | 2,975,782 |
| UAAL as a percentage of covered payroll | 81 % | 100 % | 115 % |

| | Year Ended September 30, | | |
|-------------------------------|--------------------------|-------------|-------------|
| | <u>2004</u> | <u>2005</u> | <u>2006</u> |
| Annual pension cost | \$ 369,529 | \$ 438,138 | \$ 424,019 |
| Percentage of APC contributed | 100 % | 100 % | 100 % |
| Net pension obligation | - | - | - |

NOTE F: COMPENSATED ABSENCES

Paid leave time is accrued at the rate of 19, 24, 29 and 30 days for one, two, five and ten years of service, respectively, for United Steel Workers of America union employees. Unused paid leave shall be paid off on the first pay period after the employee's anniversary date. Employees may carryover a maximum of 120 hours. Vacation, sick, and personal days are no longer separately determined for this class of employees.

BAY METROPOLITAN TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

NOTE F: COMPENSATED ABSENCES - CONTINUED

Support personnel accrue paid leave days as follows:

| | |
|---------------------------------|---------|
| Less than one year service | 7 days |
| After one year of service | 8 days |
| Two years of service | 9 days |
| Three and over years of service | 10 days |

Management employees accrue paid leave days as follows:

| | |
|--------------------------------|---------|
| Less than one year service | 8 days |
| One to three years of service | 21 days |
| Three to five years of service | 26 days |
| Five and over years of service | 31 days |

Management employees may carry over a maximum of 40 hours, except for the General Manager, who may carry over 80 hours. Unused hours are paid out to the employee.

Teamsters union employees accrue paid leave days as follows:

| | |
|-------------------------------|---------|
| After completion of probation | 5 days |
| After one year of service | 17 days |
| After two years of service | 22 days |
| After five years of service | 27 days |

Part-time employees are eligible for 50 percent of the accrual. Each year, based on the anniversary date of employment, employees may cash in unused leave time or carry over up to forty (40) hours.

Sick leave is no longer accrued. Staff employees with five or more years seniority may receive cash for 50 percent of sick leave accrued prior to October 1, 1994 upon termination of employment, not to exceed \$1,000.

Accumulated compensated absences represent a liability to the Authority, which is presented as a current liability. A current liability of \$349,413 is reported in the Statement of Net Assets at September 30, 2006.

NOTE G: PROPERTY TAX REVENUES

The Bay Metropolitan Transportation Authority property tax is levied in December on the Taxable Value of property located in the County of Bay as of the preceding December. Real and personal property in the County for the current levy was assessed and equalized at approximately \$2.76 billion representing 50% of estimated current market value. In November 2004, the Bay Metropolitan Transportation Authority's tax rate of .75 mills was renewed for five (5) years, expiring in December 2010. For the year ended September 30, 2006, the Bay Metropolitan Transportation Authority levied .7500 mills.

NOTE H: RISK MANAGEMENT

The Bay Metropolitan Transportation Authority is a member of the Michigan Transit Liability Trust Fund ("Pool") established pursuant to an Intergovernmental Agreement entered into by the member Transit Agencies and Authorities.

This Pool was established for the purpose of making a self-insurance pooling program available for Michigan Transit Agencies and Authorities, which includes, but is not limited to, bodily injury liability, property damage liability, and personal injury liability related to vehicle operation of the Bay Metropolitan Transportation Authority.

BAY METROPOLITAN TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

NOTE H: RISK MANAGEMENT - CONTINUED

The Bay Metropolitan Transportation Authority pays an annual premium to the Pool for this coverage. The agreement for the formation of the Pool provides that the Pool will be self-sustaining through member premiums. Annually, the Authority receives notification from the Pool of retrospective claims adjustments based on the actual claims experience of the Authority and other members of the Pool. These retrospective claims adjustments, determined by the Pool, are accrued annually by the Authority upon notification.

The Bay Metropolitan Transportation Authority continues to carry commercial insurance for employee health and other insurance including general liability and commercial building insurance.

NOTE I: SELF INSURANCE

The Authority is self-insured for employee's workers' compensation insurance. The self-insurance program is administered by an independent administrator who processes daily claims and performs management duties. Currently, the Authority insures claims of up to \$300,000 for an individual employee. In addition, the Authority has purchased insurance coverage to pay claims exceeding the self-insured portion. To date, the Authority has not incurred any claims exceeding the plan limit.

The claim liability at September 30, 2006, is based on the requirements of Governmental Accounting Standards Board, Statement No. 10, which requires that a liability for claims be reported if it is probable that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated. The claim liability is estimated by the independent administrator.

The changes in the claim liability for the years ended September 30, 2006, September 30, 2005, and September 30, 2004 are as follows:

| | Beginning of Year/Period <u>Liability</u> | Current Year/Period Claims and Changes in <u>Estimates</u> | Claim Payments | End of Year/Period <u>Liability</u> |
|------|---|--|-------------------|---|
| 2006 | \$ 143,009 | \$ 193,218 | \$ 114,579 | \$ 221,648 |
| 2005 | 204,158 | 127,239 | 188,388 | 143,009 |
| 2004 | 179,372 | 170,711 | 145,925 | 204,158 |

NOTE J: CONTINGENT LIABILITIES

Under the terms of various Federal and State grants, periodic compliance audits are required and certain costs may be questioned, allowed, or disallowed, which could result in funds being returned and/or received from grantor agencies.

NOTE K: POST-RETIREMENT HEALTH CARE BENEFITS

In addition to providing pension benefits, the Authority provides certain health care benefits for retired employees. Substantially all of the Authority's employees may become eligible for these benefits if they reach the normal retirement age of 60 with at least 6 years of credited service while working for the Authority. These benefits are provided until age 65, at which time the individuals are eligible for Medicare coverage.

The cost of retiree health care benefits is recognized as an expense as insurance premiums are paid. For the year ended September 30, 2006, those costs totaled \$47,248.

BAY METROPOLITAN TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

NOTE K: POST-RETIREMENT HEALTH CARE BENEFITS - CONTINUED

UPCOMING REPORTING CHANGE

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting By Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

NOTE L: RESTATEMENT OF NET ASSETS

The Transportation Authority has received reconciliation amounts for state operating assistance for the years ended September 30, 2002, 2003, and 2005 in excess of the amounts initially recorded as grants receivable. As a result, beginning net assets has been restated as follows:

| | |
|--|---------------------|
| Net assets as of September 30, 2005 | \$ 5,878,931 |
| Understated receivables | <u>103,704</u> |
| Restated net assets as of September 30, 2005 | <u>\$ 5,982,635</u> |

OTHER SUPPLEMENTARY INFORMATION

BAY METROPOLITAN TRANSPORTATION AUTHORITY

SCHEDULE OF OPERATING REVENUES

Year Ended September 30, 2006

| | |
|----------------------------------|-------------------|
| Operating revenues | |
| Urban and rural fares | \$ 182,055 |
| Contract fares | 488,337 |
| Auxiliary transportation revenue | |
| Administrative services | 2,462 |
| Nontransportation revenue | |
| Maintenance services | 15,932 |
| Central Bus Station rental | 16,664 |
| Gain on sale of capital assets | 5,561 |
| Other | <u>1,408</u> |
| TOTAL OPERATING REVENUES | <u>\$ 712,419</u> |

BAY METROPOLITAN TRANSPORTATION AUTHORITY

SCHEDULE OF OPERATING EXPENSES

Year Ended September 30, 2006

| | <u>Operations</u> | <u>Maintenance</u> | <u>General Administrative</u> | <u>Total System</u> |
|---------------------------------|---------------------|---------------------|-----------------------------------|-------------------------|
| Labor | | | | |
| Operator's salaries and wages | \$ 1,595,104 | \$ - | \$ - | \$ 1,595,104 |
| Other salaries and wages | 310,989 | 487,516 | 432,089 | 1,230,594 |
| Fringe benefits | 1,756,110 | 374,335 | 354,569 | 2,485,014 |
| Contractual services | | | | |
| Advertising | - | - | 9,502 | 9,502 |
| Audit cost | - | - | 12,300 | 12,300 |
| Other services | 18,352 | 36,417 | 26,650 | 81,419 |
| Materials and supplies consumed | | | | |
| Fuel and lubricants | 437,442 | 15,051 | - | 452,493 |
| Tires and lubes | 30,999 | 597 | - | 31,596 |
| Major supplies | - | 2,860 | 3,207 | 6,067 |
| Other materials and supplies | 6,267 | 331,738 | 15,202 | 353,207 |
| Utilities | - | 97,231 | 10,127 | 107,358 |
| Insurance | 264,285 | - | 18,087 | 282,372 |
| Miscellaneous expenses | | | | |
| Purchased services | 125,900 | - | - | 125,900 |
| Travel and meetings | 75 | 1,559 | 9,890 | 11,524 |
| Dues and subscriptions | - | - | 19,480 | 19,480 |
| Other miscellaneous expenses | 5,339 | 24,079 | 11,910 | 41,328 |
| Lease and rentals | - | 2,665 | 8,768 | 11,433 |
| Depreciation | <u>558,150</u> | <u>49,161</u> | <u>275,490</u> | <u>882,801</u> |
| TOTAL OPERATING EXPENSES | <u>\$ 5,109,012</u> | <u>\$ 1,423,209</u> | <u>\$ 1,207,271</u> | <u>\$ 7,739,492</u> |

BAY METROPOLITAN TRANSPORTATION AUTHORITY

SCHEDULE OF NONOPERATING REVENUES - LOCAL

Year Ended September 30, 2006

| | |
|-------------------------------------|----------------------------|
| Property tax | \$ 2,052,862 |
| Interest income | <u>60,627</u> |
| TOTAL NONOPERATING REVENUES - LOCAL | <u><u>\$ 2,113,489</u></u> |

BAY METROPOLITAN TRANSPORTATION AUTHORITY

SCHEDULE OF NONOPERATING REVENUES - STATE AND FEDERAL

Year Ended September 30, 2006

| | |
|--|----------------------------|
| State of Michigan grants | |
| Formula operating assistance (Act 51) | \$ 2,669,589 |
| Capital match for Section 5307 grant | 17,554 |
| Capital match for Section 5309 grant | <u>63,082</u> |
| Total State of Michigan operating and capital grants | 2,750,225 |
| Federal grants | |
| U.S.D.O.T. operating grant - Section 5307 | 914,148 |
| U.S.D.O.T. capital grant - Section 5307 | 102,216 |
| U.S.D.O.T. capital grant - Section 5309 | 252,326 |
| U.S.D.O.T. operating grant - Section 5311 | 430,788 |
| U.S.D.O.T. planning grant - Section 5303 | <u>24,360</u> |
| Total Federal operating and capital grants | <u>1,723,838</u> |
| TOTAL NONOPERATING REVENUES - STATE AND FEDERAL | <u><u>\$ 4,474,063</u></u> |

BAY METROPOLITAN TRANSPORTATION AUTHORITY
NET ELIGIBLE COST COMPUTATIONS OF GENERAL OPERATIONS

Year Ended September 30, 2006

| | Operations | | Planning | |
|---|-------------------------|-------------------------|-------------------------|---------------------|
| | Federal Section 5311 | Federal Section 5307 | Federal Section 5303 | Total |
| Expenses | | | | |
| Labor | \$ 1,028,990 | \$ 1,775,718 | \$ 20,990 | \$ 2,825,698 |
| Fringe benefits | 902,062 | 1,570,531 | 12,421 | 2,485,014 |
| Contractual services | 43,353 | 59,868 | - | 103,221 |
| Materials and supplies | 330,008 | 513,355 | - | 843,363 |
| Utilities | 45,090 | 62,268 | - | 107,358 |
| Insurance | 104,116 | 178,256 | - | 282,372 |
| Purchased transportation services | 52,878 | 73,022 | - | 125,900 |
| Miscellaneous | 30,378 | 41,954 | - | 72,332 |
| Leases and rentals | 4,801 | 6,632 | - | 11,433 |
| Depreciation | 329,248 | 553,554 | - | 882,802 |
| Total expenses | 2,870,924 | 4,835,158 | 33,411 | 7,739,493 |
| Less ineligible expenses | | | | |
| Central bus station | (6,688) | (11,387) | - | (18,075) |
| Association dues | (919) | (1,270) | - | (2,189) |
| Auxiliary transportation revenue | (1,034) | (1,428) | - | (2,462) |
| Sale of maintenance services | (5,895) | (10,037) | - | (15,932) |
| Depreciation | (322,341) | (543,585) | - | (865,926) |
| Total ineligible expenses | (336,877) | (567,707) | -0- | (904,584) |
| NET ELIGIBLE EXPENSES | <u>\$ 2,534,047</u> | <u>\$ 4,267,451</u> | <u>\$ 33,411</u> | <u>\$ 6,834,909</u> |
| Maximum Section 5311 reimbursement 17.00% of \$2,534,047 | <u>\$ 430,788</u> | | | |
| Maximum Section 5307 reimbursement 50% of \$4,267,451, not to exceed \$914,148 | | <u>\$ 914,148</u> | | |
| State operating assistance 39.25% of \$6,801,498 | | <u>\$ 2,669,589</u> | | |
| Maximum Section 5303 reimbursement 80% of \$33,411, not to exceed \$24,360 | | | <u>\$ 24,360</u> | |

BAY METROPOLITAN TRANSPORTATION AUTHORITY

SCHEDULE OF INELIGIBLE EXPENSES

Year Ended September 30, 2006

| <u>Program</u> | <u>Finding/Noncompliance</u> | <u>Ineligible Expense</u> |
|--|---|-------------------------------|
| Urban Mass Transportation Administration | | |
| A) Operating Grants Listed on Schedule of Expenditures of Federal Awards | | |
| | 1. Central bus station - local expenses must be deducted as an ineligible expense. | \$ 18,075 |
| | 2. Association dues - a percentage of the annual dues to Transit associations must be deducted as an ineligible expense. | 2,189 |
| | 3. Auxiliary transportation revenue - eligible expenses are reduced by auxiliary transportation revenue. | 2,462 |
| | 4. Sale of maintenance service - eligible expenses are reduced by proceeds from services. | 15,932 |
| | 5. Depreciation - depreciation on capital assets purchased with Federal and State grants must be deducted as an ineligible expense. | <u>865,926</u> |
| | Total | <u>\$ 904,584</u> |

BAY METROPOLITAN TRANSPORTATION AUTHORITY

SCHEDULE OF VEHICLE HOURS AND MILEAGE DATA (UNAUDITED)

Year Ended September 30, 2006

| | Vehicle Hours | Public Transportation Mileage ⁽¹⁾ |
|-----------------------|------------------|--|
| Motor bus | | |
| 1st quarter | 15,097 | 261,001 |
| 2nd quarter | 14,956 | 258,173 |
| 3rd quarter | 14,701 | 252,357 |
| 4th quarter | 13,648 | 225,373 |
| Total motor bus | 58,402 | 996,904 |
| Demand response | | |
| 1st quarter | 7,701 | 130,179 |
| 2nd quarter | 8,991 | 128,111 |
| 3rd quarter | 7,947 | 126,149 |
| 4th quarter | 7,908 | 127,983 |
| Total demand response | 32,547 | 512,422 |
| TOTAL OPERATIONS | 90,949 | 1,509,326 |

- ⁽¹⁾ The methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.

BAY METROPOLITAN TRANSPORTATION AUTHORITY

SUBRECIPIENT SCHEDULE OF OPERATING AND NONOPERATING REVENUES (UNAUDITED) -
ARENAC OPPORTUNITIES, INC.

Year Ended September 30, 2006

| | |
|---|--------------------------|
| Operating revenues | |
| Passenger fares | \$ 18,478 |
| Contract fares | <u>217,085</u> |
| Total operating revenues | 235,563 |
| Local nonoperating revenue | |
| Miscellaneous | 5,000 |
| State of Michigan grants | |
| Formula operating assistance (Act 51) | 186,798 |
| Prior year adjustments | |
| FY 2002 operating assistance | (787) |
| FY 2003 operating assistance | 983 |
| FY 2005 operating assistance | <u>6,757</u> |
| Total State of Michigan grants | 193,751 |
| Federal grants | |
| U.S.D.O.T. operating grant - Section 5311 | <u>80,906</u> |
| TOTAL OPERATING AND NONOPERATING REVENUES | <u><u>\$ 515,220</u></u> |

BAY METROPOLITAN TRANSPORTATION AUTHORITY

SUBRECIPIENT SCHEDULE OF OPERATING EXPENSES (UNAUDITED) -
ARENAC OPPORTUNITIES, INC.

Year Ended September 30, 2006

| | <u>Operations</u> | <u>Maintenance</u> | <u>General Administrative</u> | <u>Total System</u> |
|---------------------------------|-------------------|--------------------|-----------------------------------|-------------------------|
| Labor | | | | |
| Operator's salaries and wages | \$ 190,140 | \$ - | \$ - | \$ 190,140 |
| Other salaries and wages | 36,143 | - | 33,364 | 69,507 |
| Fringe benefits | 26,839 | - | 4,369 | 31,208 |
| Contractual services | | | | |
| Advertising | - | - | 956 | 956 |
| Other services | - | 42,467 | 4,565 | 47,032 |
| Materials and supplies consumed | | | | |
| Fuel and lubricants | 67,255 | - | - | 67,255 |
| Tires and lubes | 4,415 | - | - | 4,415 |
| Other materials and supplies | - | 4,422 | 1,634 | 6,056 |
| Utilities | - | - | 11,352 | 11,352 |
| Insurance | 36,524 | - | 688 | 37,212 |
| Interest | - | - | 1,711 | 1,711 |
| Miscellaneous expenses | | | | |
| Travel and meetings | 3,742 | - | 196 | 3,938 |
| Dues and subscriptions | 186 | - | 2,545 | 2,731 |
| Other miscellaneous expenses | 3,444 | - | - | 3,444 |
| Lease and rentals | <u>-</u> | <u>-</u> | <u>724</u> | <u>724</u> |
| TOTAL OPERATING EXPENSES | <u>\$ 368,688</u> | <u>\$ 46,889</u> | <u>\$ 62,104</u> | <u>\$ 477,681</u> |

BAY METROPOLITAN TRANSPORTATION AUTHORITY

SUBRECIPIENT SCHEDULE OF NONOPERATING REVENUES - STATE AND FEDERAL (UNAUDITED) -
ARENAC OPPORTUNITIES, INC.

Year Ended September 30, 2006

| | |
|---|--------------------------|
| State of Michigan grants | |
| Formula operating assistance (Act 51) | \$ 186,798 |
| Prior year adjustments | |
| FY 2002 operating assistance | (787) |
| FY 2003 operating assistance | 983 |
| FY 2005 operating assistance | <u>6,757</u> |
| Total State of Michigan grants | 193,751 |
| Federal grants | |
| U.S.D.O.T. operating grant - Section 5311 | <u>80,906</u> |
| TOTAL NONOPERATING REVENUES - STATE AND FEDERAL | <u><u>\$ 274,657</u></u> |

BAY METROPOLITAN TRANSPORTATION AUTHORITY

SUBRECIPIENT NET ELIGIBLE COST COMPUTATIONS OF GENERAL OPERATIONS (UNAUDITED) -
ARENAC OPPORTUNITIES, INC.

Year Ended September 30, 2006

| | <u>Operations</u> |
|--|--------------------------|
| Expenses | |
| Labor | \$ 259,647 |
| Fringe benefits | 31,208 |
| Contractual services | 47,988 |
| Materials and supplies | 77,726 |
| Utilities | 11,352 |
| Insurance | 37,212 |
| Interest | 1,711 |
| Miscellaneous | 10,113 |
| Leases and rentals | <u>724</u> |
| Total expenses | 477,681 |
| Less ineligible expenses | |
| Interest | (1,711) |
| Association dues | <u>(52)</u> |
| Total ineligible expenses | <u>(1,763)</u> |
| NET ELIGIBLE EXPENSES | <u><u>\$ 475,918</u></u> |
| Maximum Federal Section 5311 reimbursement | |
| 17.00% of \$475,918 | <u><u>\$ 80,906</u></u> |
| State operating assistance | |
| 39.25% of \$475,918, not to exceed \$186,798 | <u><u>\$ 186,798</u></u> |

BAY METROPOLITAN TRANSPORTATION AUTHORITY

SUBRECIPIENT SCHEDULE OF VEHICLE HOURS AND MILEAGE DATA (UNAUDITED) -
ARENAC OPPORTUNITIES, INC.

Year Ended September 30, 2006

| | <u>Vehicle Hours</u> | <u>Public Transportation Mileage</u> |
|------------------|--------------------------|--|
| TOTAL OPERATIONS | <u>20,510</u> | <u>393,898</u> |

BAY METROPOLITAN TRANSPORTATION AUTHORITY

SCHEDULE OF EXPENDITURES OF STATE AWARDS

Year Ended September 30, 2006

| <u>State Grantor/Program Title</u> | <u>Grant Number</u> | <u>Restated Program or Award Amount</u> | <u>Accrued (Deferred) Revenue at Oct. 1, 2005</u> | <u>Adjustments by Grantors to Accrued (Deferred)</u> |
|--|-------------------------|---|---|--|
| MICHIGAN DEPARTMENT OF TRANSPORTATION | | | | |
| Operating assistance (FY 06) | N/A | \$ 2,669,589 | \$ - | \$ - |
| Operating assistance (FY 05) | N/A | 2,714,269 | 72,631 | 101,017 |
| Operating assistance (FY 04) | N/A | 2,754,060 | 67,354 | - |
| Operating assistance (FY 03) | N/A | 2,723,479 | - | 13,748 |
| Operating assistance (FY 02) | N/A | 2,515,823 | - | (11,061) |
| Operating assistance (FY 01) | N/A | 2,790,680 | 26,959 | - |
| Operating assistance (FY 00) | N/A | 2,494,750 | 106,966 | - |
| Operating assistance (FY 06) | | | | |
| Arenac Opportunities, Inc. | N/A | 186,798 | - | - |
| Operating assistance (FY 05) | | | | |
| Arenac Opportunities, Inc. | N/A | 181,575 | (16,047) | 6,757 |
| Operating assistance (FY 04) | | | | |
| Arenac Opportunities, Inc. | N/A | 194,612 | (9,290) | - |
| Operating assistance (FY 03) | | | | |
| Arenac Opportunities, Inc. | N/A | 194,706 | - | 983 |
| Operating assistance (FY 02) | | | | |
| Arenac Opportunities, Inc. | N/A | 178,815 | - | (787) |
| Operating assistance (FY 01) | | | | |
| Arenac Opportunities, Inc. | N/A | 154,314 | 1,677 | - |
| Capital assistance - Section 5307 match | 2002-0014/Z24 | 29,048 | - | - |
| Capital assistance - Section 5307 match | 2002-0014/Z35 | 25,000 | - | - |
| Capital assistance - Section 5309 match | 2002-0014/Z21 | 5,000 | - | - |
| Capital assistance - Section 5309 match | 2002-0014/Z22/R1 | 60,680 | - | - |
| Capital assistance - Section 5313(b) match | 2002-0014/Z20 | 5,000 | 1,039 | - |
| Specialized services 04-05 (Flow through) | 2002-0014/Z26 | 117,106 | 801 | - |
| Specialized services 05-06 (Flow through) | 2002-0014/Z29 | 121,553 | - | - |
| Transportation to Work - Bay County | | | | |
| Operating (Flow through) | 2002-0014/Z11 | 15,015 | (959) | - |
| Transportation to Work - Bay County | | | | |
| Operating (Flow through) | 2002-0014/Z23 | <u>6,255</u> | <u>389</u> | <u>-</u> |
| TOTAL STATE ASSISTANCE | | <u>\$20,138,127</u> | <u>\$ 251,520</u> | <u>\$ 110,657</u> |

| Adjusted Accrued (Deferred) Revenue at <u>Oct. 1, 2005</u> | Current Year Receipts/ (Payments) | Current Year Expenditures | Accrued (Deferred) Revenue at <u>Sept. 30, 2006</u> |
|--|--|---------------------------------|--|
| \$ - | \$ 2,525,633 | \$ 2,669,589 | \$ 143,956 |
| 173,648 | 86,823 | - | 86,825 |
| 67,354 | 64,156 | - | 3,198 |
| 13,748 | 6,941 | - | 6,807 |
| (11,061) | (11,061) | - | - |
| - | 26,959 | - | - |
| - | 106,966 | - | - |
| - | 177,051 | 186,798 | 9,747 |
| (9,290) | (3,098) | - | (6,192) |
| - | (9,290) | - | - |
| 983 | 497 | - | 486 |
| (787) | (787) | - | - |
| - | 1,677 | - | - |
| - | 9,077 | 9,077 | - |
| - | 8,477 | 8,477 | - |
| - | - | 2,402 | 2,402 |
| - | 60,680 | 60,680 | - |
| - | 1,039 | - | - |
| - | 801 | - | - |
| - | 81,066 | 120,216 | 39,150 |
| - | - | - | (959) |
| - | 389 | - | - |
| <u>\$ 234,595</u> | <u>\$ 3,133,996</u> | <u>\$ 3,057,239</u> | <u>\$ 285,420</u> |

BAY METROPOLITAN TRANSPORTATION AUTHORITY

RECONCILIATION OF STATE AWARDS

Year Ended September 30, 2006

| | |
|--|---------------------|
| Total assistance reported on the Schedule of Expenditures of State Awards | \$ 3,057,239 |
| Specialized services grant reported as flow through on financial statements | (120,216) |
| State operating assistance reported as flow through to Arenac Opportunities, Inc. on the financial statements | <u>(186,798)</u> |
| State assistance reported as nonoperating revenue in the financial statements | <u>\$ 2,750,225</u> |

SINGLE AUDIT SECTION

BAY METROPOLITAN TRANSPORTATION AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended September 30, 2006

| <u>Federal Grantor/ Pass through Grantor/Program Title</u> | <u>Federal CFDA Number</u> | <u>Grantor Number</u> | <u>Restated Program Award Amount</u> | <u>Accrued (Deferred) Revenue at Oct. 1, 2005</u> |
|--|------------------------------------|---------------------------|--|---|
| U.S. DEPARTMENT OF TRANSPORTATION | | | | |
| Federal Transit Administration | | | | |
| Direct Assistance | | | | |
| Federal Transit - Formula Grants ^{(a) (b)} | 20.507 | | | |
| Capital Assistance - Section 5307 | | MI-90-0499 | \$ 148,000 | \$ - |
| Operating Assistance - Section 5307 | | MI-90-4499 | 914,148 | - |
| Capital Assistance - Section 5307 | | MI-90-0448 | <u>116,192</u> | <u>-</u> |
| Total Direct Federal Assistance | | | 1,178,340 | -0- |
| Passed through Bay County | | | | |
| Federal Transit - Metropolitan Planning Grants | 20.505 | | | |
| Planning Assistance - Section 5303 05-06 | | N/A | 24,360 | - |
| Planning Assistance - Section 5303 04-05 | | N/A | <u>24,359</u> | <u>6,726</u> |
| Total Passed through Bay County | | | 48,719 | 6,726 |
| Passed through State of Michigan | | | | |
| Federal Transit - Capital Investment Grants ^{(a) (b)} | 20.500 | | | |
| Capital Assistance - Section 5309 | | 2002-0014/Z22/R1 | 242,718 | - |
| Capital Assistance - Section 5309 | | 2002-0014/Z21 | <u>20,000</u> | <u>-</u> |
| | | | 262,718 | -0- |
| Formula Grants for Other than Urbanized Areas | | | | |
| Operating Assistance - Section 5311 (FY 03) | 20.509 | | | |
| Arenac Opportunities, Inc. | | 2002-0014/Z13 | 49,410 | 4,843 |
| Operating Assistance - Section 5311 (FY 03) | | 2002-0014/Z14 | 264,447 | 19,311 |
| Operating Assistance - Section 5311 (FY 05) | | 2002-0014/Z28 | 368,006 | 97,775 |
| Operating Assistance - Section 5311 (FY 05) | | | | |
| Arenac Opportunities, Inc. | | 2002-0014/Z27 | 56,396 | 19,348 |
| Operating Assistance - Section 5311 (FY 04) | | 2002-0014/Z18 | 281,828 | 15,485 |
| Operating Assistance - Section 5311 (FY 06) | | 2002-0014/Z31/R1 | 430,788 | - |
| Operating Assistance - Section 5311 (FY 06) | | | | |
| Arenac Opportunities, Inc. | | 2002-0014/Z30/R1 | <u>80,906</u> | <u>-</u> |
| | | | 1,531,781 | 156,762 |
| State Planning and Research | | | | |
| Capital Assistance - Section 5313(b) | 20.515 | | | |
| | | 2002-0014/Z20 | <u>20,000</u> | <u>4,154</u> |
| Total Passed through State of Michigan | | | <u>1,814,499</u> | <u>160,916</u> |
| TOTAL FEDERAL ASSISTANCE | | | <u>\$ 3,041,558</u> | <u>\$ 167,642</u> |

^(a) Denotes major program.

^(b) Denotes programs required to be clustered by the United States Department of Transportation.

^(c) The total federal revenue on the Schedule of Nonoperating Revenues is \$1,723,838. The total federal revenue on the Schedule of Expenditures of Federal Awards is \$1,804,744. The difference between the Federal revenue amounts is \$80,906, due to Operating Assistance - Section 5311 passed through to Arenac Opportunities, Inc.

| <u>Current Year Receipts/ (Payments)</u> | <u>Current Year Expenditures</u> | <u>Accrued (Deferred) Revenue at Sept. 30, 2006</u> |
|--|--|---|
| \$ 65,906 | \$ 65,906 | \$ - |
| 914,148 | 914,148 | - |
| <u>36,310</u> | <u>36,310</u> | <u>-</u> |
| 1,016,364 | 1,016,364 | -0- |
| - | 24,360 | 24,360 |
| <u>4,557</u> | <u>-</u> | <u>2,169</u> |
| 4,557 | 24,360 | 26,529 |
| 242,718 | 242,718 | - |
| <u>-</u> | <u>9,608</u> | <u>9,608</u> |
| 242,718 | 252,326 | 9,608 |
| 4,843 | - | - |
| 19,311 | - | - |
| 81,510 | - | 16,265 |
| 19,348 | - | - |
| - | - | 15,485 |
| 400,517 | 430,788 | 30,271 |
| <u>62,014</u> | <u>80,906</u> | <u>18,892</u> |
| 587,543 | 511,694 | 80,913 |
| <u>4,154</u> | <u>-</u> | <u>-</u> |
| <u>834,415</u> | <u>764,020</u> | <u>90,521</u> |
| <u>\$ 1,855,336</u> | <u>\$ 1,804,744</u> ^(c) | <u>\$ 117,050</u> |

Principals

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Bay Metropolitan Transportation Authority
Bay City, Michigan

We have audited the basic financial statements of the Bay Metropolitan Transportation Authority as of and for the year ended September 30, 2006, and have issued our report thereon dated November 15, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Bay Metropolitan Transportation Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Bay Metropolitan Transportation Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of management and the Board of Directors of the Bay Metropolitan Transportation Authority, the Federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

November 15, 2006

Principals

Dale J. Abraham, CPA
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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors
Bay Metropolitan Transportation Authority
Bay City, Michigan

Compliance

We have audited the compliance of the Bay Metropolitan Transportation Authority with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that is applicable to each of its major federal programs for the year ended September 30, 2006. The Bay Metropolitan Transportation Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to each of its major Federal programs is the responsibility of the Bay Metropolitan Transportation Authority's management. Our responsibility is to express an opinion on the Bay Metropolitan Transportation Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the Bay Metropolitan Transportation Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Bay Metropolitan Transportation Authority's compliance with those requirements.

In our opinion, the Bay Metropolitan Transportation Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2006.

Internal Control Over Compliance

The management of the Bay Metropolitan Transportation Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grant agreements applicable to federal programs. In planning and performing our audit, we considered the Bay Metropolitan Transportation Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one (1) or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected caused by error or fraud within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of management and the Board of Directors of the Bay Metropolitan Transportation Authority, the Federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

November 15, 2006

Bay Metropolitan Transportation Authority
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended September 30, 2006

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? _____ Yes X No

Reportable condition(s) identified that are not considered to be material weakness(es)? _____ Yes X None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? _____ Yes X No

Reportable condition(s) identified that are not considered to be material weakness(es)? _____ Yes X None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported with Section 501(a) of Circular A-133? _____ Yes X No

Identification of major programs:

| CFDA Number(s) | Name of Federal Program or Cluster |
|-------------------|------------------------------------|
| 20.500 and 20.507 | Federal Transit Cluster |

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee? X Yes _____ No

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

BAY METROPOLITAN TRANSPORTATION AUTHORITY

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended September 30, 2006

FINDINGS/NONCOMPLIANCE

Reportable Conditions Related to Internal Controls Over the Financial Statements.

No prior reportable conditions.

Findings Related to Compliance with Requirements Applicable to the Financial Statements.

No prior audit findings.

Findings Related to Compliance with Requirements Applicable to Federal Awards and Internal Control Over Compliance in Accordance with OMB Circular A-133.

No prior audit findings.